



ANNUAL STATEMENT
For the Year Ending December 31, 2004
OF THE CONDITION AND AFFAIRS OF THE
QCA Health Plan, Inc.

NAIC Group Code	0000	0000	NAIC Company Code	95448	Employer's ID Number	71-0794605
	(Current Period)	(Prior Period)				
Organized under the Laws of	Arkansas		State of Domicile or Port of Entry	Arkansas		
Country of Domicile	United States of America					
Licensed as business type:	Life, Accident & Health[] Dental Service Corporation[] Other[]		Property/Casualty[] Vision Service Corporation[] Is HMO Federally Qualified? Yes[] No[X]		Hospital, Medical & Dental Service or Indemnity[] Health Maintenance Organization[X]	
Incorporated	04/08/1996		Commenced Business	07/31/1996		
Statutory Home Office	10825 Financial Centre Parkway, Suite 400		Little Rock, AR 72211			
	(Street and Number)		(City, or Town, State and Zip Code)			
Main Administrative Office	10825 Financial Centre Parkway, Suite 400					
	(Street and Number)					
	Little Rock, AR 72211		(501)228-7111			
	(City or Town, State and Zip Code)		(Area Code) (Telephone Number)			
Mail Address	10825 Financial Centre Parkway, Suite 400		Little Rock, AR 72211			
	(Street and Number or P.O. Box)		(City, or Town, State and Zip Code)			
Primary Location of Books and Records	10825 Financial Centre Parkway, Suite 400					
	(Street and Number)					
	Little Rock, AR 72211		(501)228-7111			
	(City, or Town, State and Zip Code)		(Area Code) (Telephone Number)			
Internet Website Address	www.qcark.com					
Statutory Statement Contact	Randall Crow		(501)228-7111-5109			
	(Name)		(Area Code)(Telephone Number)(Extension)			
	rcrow@qcark.com		(501)228-0135			
	(E-Mail Address)		(Fax Number)			
Policyowner Relations Contact	Terri James (address same as above)					
	(Street and Number)					
	Little Rock, AR 72211		(501)228-0135			
	(City, or Town, State and Zip Code)		(Area Code) (Telephone Number)(Extension)			

OFFICERS

Name	Title
Francis Lee Browning	President
Michael Edward Stock	Treasurer
Randall Alvin Crow	Secretary

OTHERS

Roy Perry Lamm
Richard Thomas Halinski Jr., J.D.

Joni Self Daniels
Roger Keeney Howe M.D., MMM

DIRECTORS OR TRUSTEES

Francis Lee Browning
Richard Allen Pierson
Barbara Garner Williams RN, PhD
Joseph Maurice Elser M.D.
Pamela Jean Stoyanoff

Stephanie Gayle Smith
Larry Bridge #
Buford Joseph Suffridge DDS,MS,PA
Joseph Patrick Searcy
A. David Hall M.D.

State of Arkansas
County of Pulaski ss

The officers of this reporting entity, being duly sworn, each depose and say that they are the described officers of the said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

(Signature)	(Signature)	(Signature)
Francis Lee Browning	Randall Alvin Crow	Michael Edward Stock
(Printed Name)	(Printed Name)	(Printed Name)
President	Secretary	Treasurer
(Title)	(Title)	(Title)

Subscribed and sworn to before me this	a. Is this an original filing?	Yes[X] No[]
day of , 2005	b. If no, 1. State the amendment number	
	2. Date filed	
	3. Number of pages attached	

(Notary Public Signature)

ASSETS

		Current Year			Prior Year
		1	2	3	4
		Assets	Nonadmitted Assets	Net Admitted Assets (Cols.1-2)	Net Admitted Assets
1.	Bonds (Schedule D)	9,967,061		9,967,061	
2.	Stocks (Schedule D)				
2.1	Preferred stocks				
2.2	Common Stocks				
3.	Mortgage loans on real estate (Schedule B):				
3.1	First liens				
3.2	Other than first liens				
4.	Real estate (Schedule A):				
4.1	Properties occupied by the company (less \$..... encumbrances)				
4.2	Properties held for the production of income (less \$..... encumbrances)				
4.3	Properties held for sale (less \$..... encumbrances)				
5.	Cash (\$.....9,631,444 Schedule E Part 1), cash equivalents (\$..... Schedule E Part 2) and short-term investments (\$.....2,320,928 Schedule DA)	11,952,372		11,952,372	19,939,829
6.	Contract loans (including \$..... premium notes)				
7.	Other invested assets (Schedule BA)				
8.	Receivable for securities				
9.	Aggregate write-ins for invested assets				
10.	Subtotals, cash and invested assets (Lines 1 to 9)	21,919,433		21,919,433	19,939,829
11.	Investment income due and accrued	77,403		77,403	7,548
12.	Premiums and considerations				
12.1	Uncollected premiums and agents' balances in the course of collection	103,002		103,002	829,581
12.2	Deferred premiums, agents' balances and installments booked but deferred and not yet due (Including \$..... earned but unbilled premiums)				
12.3	Accrued retrospective premiums				
13.	Reinsurance:				
13.1	Amounts recoverable from reinsurers				
13.2	Funds held by or deposited with reinsured companies				
13.3	Other amounts receivable under reinsurance contracts				
14.	Amounts receivable relating to uninsured plans	251,267		251,267	
15.1	Current federal and foreign income tax recoverable and interest thereon ...				
15.2	Net deferred tax asset	571,000		571,000	
16.	Guaranty funds receivable or on deposit				
17.	Electronic data processing equipment and software				
18.	Furniture and equipment, including health care delivery assets (\$.....)				
19.	Net adjustment in assets and liabilities due to foreign exchange rates				
20.	Receivables from parent, subsidiaries and affiliates	581,788		581,788	24,658
21.	Health care (\$.....) and other amounts receivable	23,391		23,391	818,850
22.	Other assets nonadmitted				
23.	Aggregate write-ins for other than invested assets				
24.	Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	23,527,284		23,527,284	21,620,466
25.	From Separate Accounts, Segregated Accounts and Protected Cell Accounts				
26.	Total (Lines 24 and 25)	23,527,284		23,527,284	21,620,466
DETAILS OF WRITE-INS					
0901.	Investment due and accrued				
0902	.....			
0903	.....			
0998.	Summary of remaining write-ins for Line 9 from overflow page				
0999.	TOTALS (Lines 0901 through 0903 plus 0998) (Line 9 above)				
2301	.....			
2302	.....			
2303	.....			
2398.	Summary of remaining write-ins for Line 23 from overflow page				
2399.	TOTALS (Lines 2301 through 2303 plus 2398) (Line 23 above)				

LIABILITIES, CAPITAL AND SURPLUS

		Current Year			Prior Year
		1 Covered	2 Uncovered	3 Total	4 Total
1.	Claims unpaid (less \$..... reinsurance ceded)	7,388,900	1,470,692	8,859,592	9,519,929
2.	Accrued medical incentive pool and bonus amounts				
3.	Unpaid claims adjustment expenses	67,756		67,756	158,516
4.	Aggregate health policy reserves				
5.	Aggregate life policy reserves				
6.	Property/casualty unearned premium reserves				
7.	Aggregate health claim reserves				
8.	Premiums received in advance	951,147		951,147	1,189,359
9.	General expenses due or accrued	973,963		973,963	1,014,402
10.1	Current federal and foreign income tax payable and interest thereon (including \$..... on realized capital gains (losses))	49,198		49,198	
10.2	Net deferred tax liability				
11.	Ceded reinsurance premiums payable				
12.	Amounts withheld or retained for the account of others				
13.	Remittance and items not allocated				
14.	Borrowed money (including \$..... current) and interest thereon \$..... (including \$..... current)				
15.	Amounts due to parent, subsidiaries and affiliates	53,595		53,595	16,372
16.	Payable for securities				
17.	Funds held under reinsurance treaties with (\$..... authorized reinsurers and \$..... unauthorized reinsurers)				
18.	Reinsurance in unauthorized companies				
19.	Net adjustments in assets and liabilities due to foreign exchange rates				
20.	Liability for amounts held under uninsured accident and health plans	338,613		338,613	338,807
21.	Aggregate write-ins for other liabilities (including \$..... current)				
22.	Total liabilities (Lines 1 to 21)	9,823,172	1,470,692	11,293,864	12,237,385
23.	Common capital stock	X X X	X X X	1,553	1,553
24.	Preferred capital stock	X X X	X X X		
25.	Gross paid in and contributed surplus	X X X	X X X	8,123,807	8,123,807
26.	Surplus notes	X X X	X X X	17,210,808	17,210,808
27.	Aggregate write-ins for other than special surplus funds	X X X	X X X		
28.	Unassigned funds (surplus)	X X X	X X X	(13,102,388)	(15,952,727)
29.	Less treasury stock, at cost:	X X X	X X X		
29.1	.....3,600 shares common (value included in Line 23 \$.....360)	X X X	X X X	360	360
29.2	..... shares preferred (value included in Line 24 \$.....)	X X X	X X X		
30.	Total capital and surplus (Lines 23 to 28 minus Line 29)	X X X	X X X	12,233,420	9,383,081
31.	Total Liabilities, capital and surplus (Lines 22 and 30)	X X X	X X X	23,527,284	21,620,466
DETAILS OF WRITE-INS					
2101.	Rounding				
2102	.....			
2103	.....			
2198.	Summary of remaining write-ins for Line 21 from overflow page				
2199.	TOTALS (Lines 2101 through 2103 plus 2198) (Line 21 above)				
2701	.....	X X X	X X X		
2702	.....	X X X	X X X		
2703	.....	X X X	X X X		
2798.	Summary of remaining write-ins for Line 27 from overflow page	X X X	X X X		
2799.	TOTALS (Lines 2701 through 2703 plus 2798) (Line 27 above)	X X X	X X X		

STATEMENT OF REVENUE AND EXPENSES

		Current Year		Prior Year
		1 Uncovered	2 Total	3 Total
1.	Member Months	X X X	241,222	341,255
2.	Net premium income (including \$..... non-health premium income)	X X X	56,883,747	68,934,338
3.	Change in unearned premium reserves and reserve for rate credits	X X X		
4.	Fee-for-service (net of \$..... medical expenses)	X X X		
5.	Risk revenue	X X X		
6.	Aggregate write-ins for other health care related revenues	X X X		
7.	Aggregate write-ins for other non-health revenues	X X X		
8.	Total revenues (Lines 2 to 7)	X X X	56,883,747	68,934,338
Hospital and Medical:				
9.	Hospital/medical benefits	6,286,103	37,868,092	46,949,430
10.	Other professional services			
11.	Outside referrals			
12.	Emergency room and out-of-area	521,535	3,141,781	3,607,152
13.	Prescription drugs		8,287,635	6,763,845
14.	Aggregate write-ins for other hospital and medical			
15.	Incentive pool, withhold adjustments and bonus amounts			
16.	Subtotal (Lines 9 to 15)	6,807,638	49,297,508	57,320,427
Less:				
17.	Net reinsurance recoveries		979,109	703,462
18.	Total hospital and medical (Lines 16 minus 17)	6,807,638	48,318,399	56,616,965
19.	Non-health claims			
20.	Claims adjustment expenses, including \$.....885,753 cost containment expenses		2,209,635	1,711,242
21.	General administrative expenses		4,143,261	6,083,244
22.	Increase in reserves for life and accident and health contracts (including \$..... increase in reserves for life only)			
23.	Total underwriting deductions (Lines 18 through 22)	6,807,638	54,671,295	64,411,451
24.	Net underwriting gain or (loss) (Lines 8 minus 23)	X X X	2,212,452	4,522,887
25.	Net investment income earned (Exhibit of Net Investment Income, Line 17)		248,986	220,613
26.	Net realized capital gains (losses)			
27.	Net investment gains (losses) (Lines 25 plus 26)		248,986	220,613
28.	Net gain or (loss) from agents' or premium balances charged off [(amount recovered \$.....) (amount charged off \$.....)]			
29.	Aggregate write-ins for other income or expenses		1,320	
30.	Net income or (loss) before federal income taxes (Lines 24 plus 27 plus 28 plus 29)	X X X	2,462,758	4,743,500
31.	Federal and foreign income taxes incurred	X X X	183,416	
32.	Net income (loss) (Lines 30 minus 31)	X X X	2,279,342	4,743,500
DETAILS OF WRITE-INS				
0601	.....	X X X		
0602	.....	X X X		
0603	.....	X X X		
0698.	Summary of remaining write-ins for Line 6 from overflow page	X X X		
0699.	TOTALS (Lines 0601 through 0603 plus 0698) (Line 6 above)	X X X		
0701	.....	X X X		
0702	.....	X X X		
0703	.....	X X X		
0798.	Summary of remaining write-ins for Line 7 from overflow page	X X X		
0799.	TOTALS (Line 0701 through 0703 plus 0798) (Line 7 above)	X X X		
1401.	.....		
1402	.....		
1403	.....		
1498.	Summary of remaining write-ins for Line 14 from overflow page			
1499.	TOTALS (Lines 1401 through 1403 plus 1498) (Line 14 above)			
2901.	Other Revenue		1,320	
2902	.....		
2903	.....		
2998.	Summary of remaining write-ins for Line 29 from overflow page			
2999.	TOTALS (Line 2901 through 2903 plus 2998) (Line 29 above)		1,320	

STATEMENT OF REVENUE AND EXPENSES (Continued)

		1	2
		Current Year	Prior Year
CAPITAL & SURPLUS ACCOUNT			
33.	Capital and surplus prior reporting year	9,383,081	4,491,100
GAINS AND LOSSES TO CAPITAL & SURPLUS			
34.	Net income or (loss) from Line 32	2,279,342	4,743,500
35.	Change in valuation basis of aggregate policy and claim reserves		
36.	Net unrealized capital gains and losses		
37.	Change in net unrealized foreign exchange capital gain or (loss)		
38.	Change in net deferred income tax	571,000	
39.	Change in nonadmitted assets		148,483
40.	Change in unauthorized reinsurance		
41.	Change in treasury stock		(360)
42.	Change in surplus notes		
43.	Cumulative effect of changes in accounting principles		
44.	Capital Changes:		
44.1	Paid in		
44.2	Transferred from surplus (Stock Dividend)		
44.3	Transferred to surplus		
45.	Surplus adjustments:		
45.1	Paid in		360
45.2	Transferred to capital (Stock Dividend)		
45.3	Transferred from capital		
46.	Dividends to stockholders		
47.	Aggregate write-ins for gains or (losses) in surplus	(3)	(2)
48.	Net change in capital and surplus (Lines 34 to 47)	2,850,339	4,891,981
49.	Capital and surplus end of reporting year (Line 33 plus 48)	12,233,420	9,383,081
DETAILS OF WRITE-INS			
4701.	Rounding	(3)	(2)
4702	.....	
4703	.....	
4798.	Summary of remaining write-ins for Line 47 from overflow page		
4799.	TOTALS (Lines 4701 through 4703 plus 4798) (Line 47 above)	(3)	(2)

CASH FLOW

		1	2
		Current Year	Prior Year
Cash from Operations			
1.	Premiums collected net of reinsurance	57,372,114	68,604,179
2.	Net investment income	179,131	226,498
3.	Miscellaneous income	795,459	(423,901)
4.	Total (Lines 1 through 3)	58,346,704	68,406,776
5.	Benefit and loss related payments	48,978,736	60,776,788
6.	Net transfers to Separate, Segregated Accounts and Protected Cell Accounts		
7.	Commissions, expenses paid and aggregate write-ins for deductions	6,734,236	7,124,186
8.	Dividends paid to policyholders		
9.	Federal and foreign income taxes paid (recovered) \$..... net of tax on capital gains (losses)	134,218	
10.	Total (Lines 5 through 9)	55,847,190	67,900,974
11.	Net cash from operations (Line 4 minus 10)	2,499,514	505,802
Cash from Investments			
12.	Proceeds from investments sold, matured or repaid:		
12.1	Bonds		
12.2	Stocks		
12.3	Mortgage loans		
12.4	Real estate		
12.5	Other invested assets		
12.6	Net gains or (losses) on cash, cash equivalents and short-term investments		
12.7	Miscellaneous proceeds	4,410	
12.8	Total investment proceeds (Lines 12.1 to 12.7)	4,410	
13.	Cost of investments acquired (long-term only):		
13.1	Bonds	9,971,471	
13.2	Stocks		
13.3	Mortgage loans		
13.4	Real estate		
13.5	Other invested assets		
13.6	Miscellaneous applications		
13.7	Total investments acquired (Lines 13.1 to 13.6)	9,971,471	
14.	Net increase (decrease) in policy loans and premium notes		
15.	Net cash from investments (Line 12.8 minus Line 13.7 minus Line 14)	(9,967,061)	
Cash from Financing and Miscellaneous Sources			
16.	Cash provided (applied):		
16.1	Surplus notes, capital notes		
16.2	Capital and paid in surplus, less treasury stock		
16.3	Borrowed funds		
16.4	Net deposits on deposit-type contracts and other insurance liabilities		
16.5	Dividends to stockholders		
16.6	Other cash provided (applied)	(519,910)	40,519
17.	Net cash from financing and miscellaneous sources (Lines 16.1 to 16.4 minus Line 16.5 plus Line 16.6)	(519,910)	40,519
RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS			
18.	Net change in cash and short-term investments (Line 11, plus Lines 15 and 17)	(7,987,457)	546,321
19.	Cash and short-term investments:		
19.1	Beginning of year	19,939,829	19,393,508
19.2	End of year (Line 18 plus Line 19.1)	11,952,372	19,939,829

Supplemental Disclosures of Cash Flow Information for Non-Cash Transactions:

20.0001		
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ANALYSIS OF OPERATIONS BY LINES OF BUSINESS

(Gain and Loss Exhibit)

[illegible]

UNDERWRITING AND INVESTMENT EXHIBIT
PART 1 - PREMIUMS

		1	2	3	4
		Direct Business	Reinsurance Assumed	Reinsurance Ceded	Net Premium Income (Columns 1 + 2 - 3)
Line of Business					
1.	Comprehensive (hospital and medical)	57,507,808		624,061	56,883,747
2.	Medicare Supplement				
3.	Dental only				
4.	Vision only				
5.	Federal Employee Health Benefits Plan				
6.	Title XVIII - Medicare				
7.	Title XIX - Medicaid				
8.	Stop loss				
9.	Disability income				
10.	Long-term care				
11.	Other health				
12.	Health subtotal (Lines 1 through 11)	57,507,808		624,061	56,883,747
13.	Life				
14.	Property/casualty				
15.	TOTALS (Lines 12 to 14)	57,507,808		624,061	56,883,747

UNDERWRITING AND INVESTMENT EXHIBIT
PART 2 - Claims Incurred During the Year

		1	2	3	4	5	6	7	8	9	10	11	12	13
		Total	Comprehensive (Hospital & Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefits Plan	Title XVIII Medicare	Title XIX Medicaid	Stop Loss	Disability Income	Long-Term Care	Other Health	Other Non-Health
1.	Payments during the year:													
	1.1 Direct	49,957,845	49,957,845											
	1.2 Reinsurance assumed													
	1.3 Reinsurance ceded	979,109	979,109											
	1.4 Net	48,978,736	48,978,736											
2.	Paid medical incentive pools and bonuses													
3.	Claim liability December 31, current year from Part 2A:													
	3.1 Direct	8,859,592	8,859,592											
	3.2 Reinsurance assumed													
	3.3 Reinsurance ceded													
	3.4 Net	8,859,592	8,859,592											
4.	Claim reserve December 31, current year from Part 2D:													
	4.1 Direct													
	4.2 Reinsurance assumed													
	4.3 Reinsurance ceded													
	4.4 Net													
5.	Accrued medical incentive pools and bonuses, current year													
6.	Amounts recoverable from reinsurers December 31, current year													
7.	Claim liability December 31, prior year from Part 2A:													
	7.1 Direct	9,519,929	9,519,929											
	7.2 Reinsurance assumed													
	7.3 Reinsurance ceded													
	7.4 Net	9,519,929	9,519,929											
8.	Claim reserve December 31, prior year from Part 2D:													
	8.1 Direct													
	8.2 Reinsurance assumed													
	8.3 Reinsurance ceded													
	8.4 Net													
9.	Accrued medical incentive pools and bonuses, prior year													
10.	Amounts recoverable from reinsurers December 31, prior year													
11.	Incurred benefits:													
	11.1 Direct	49,297,508	49,297,508											
	11.2 Reinsurance assumed													
	11.3 Reinsurance ceded	979,109	979,109											
	11.4 Net	48,318,399	48,318,399											
12.	Incurred medical incentive pools and bonuses													

UNDERWRITING AND INVESTMENT EXHIBIT
PART 2A - Claims Liability End of Current Year

		1	2	3	4	5	6	7	8	9	10	11	12	13
		Total	Compre- hensive (Hospital & Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefits Plan	Title XVIII Medicare	Title XIX Medicaid	Stop Loss	Disability Income	Long-Term Care	Other Health	Other Non-Health
1.	Reported in Process of Adjustment:													
	1.1 Direct	4,949,478	4,949,478											
	1.2 Reinsurance assumed													
	1.3 Reinsurance ceded													
	1.4 Net	4,949,478	4,949,478											
2.	Incurred but Unreported:													
	2.1 Direct	3,865,256	3,865,256											
	2.2 Reinsurance assumed													
	2.3 Reinsurance ceded													
	2.4 Net	3,865,256	3,865,256											
3.	Amounts Withheld from Paid Claims and Capitations:													
	3.1 Direct	44,858	44,858											
	3.2 Reinsurance assumed													
	3.3 Reinsurance ceded													
	3.4 Net	44,858	44,858											
4.	TOTALS													
	4.1 Direct	8,859,592	8,859,592											
	4.2 Reinsurance assumed													
	4.3 Reinsurance ceded													
	4.4 Net	8,859,592	8,859,592											

UNDERWRITING AND INVESTMENT EXHIBIT
PART 2B - ANALYSIS OF CLAIMS UNPAID-PRIOR YEAR-NET OF REINSURANCE

		Claims Paid During the Year		Claim Reserve and Claim Liability December 31 of Current Year		5	6
		1 On Claims Incurred Prior to January 1 of Current Year	2 On Claims Incurred During the Year	3 On Claims Unpaid December 31 of Prior Year	4 On Claims Incurred During the Year	Claims Incurred in Prior Years (Columns 1 + 3)	Estimated Claim Reserve and Claim Liability December 31 of Prior Year
Line of Business							
1.	Comprehensive (hospital and medical)	6,158,716	42,820,020	53,681	8,805,911	6,212,397	9,519,929
2.	Medicare Supplement						
3.	Dental only						
4.	Vision only						
5.	Federal Employees Health Benefits Plan						
6.	Title XVIII - Medicare						
7.	Title XIX - Medicaid						
8.	Other health						
9.	Health subtotal (Lines 1 to 8)	6,158,716	42,820,020	53,681	8,805,911	6,212,397	9,519,929
10.	Other non-health						
11.	Medical incentive pool and bonus amounts						
12.	TOTALS (Lines 9 to 11)	6,158,716	42,820,020	53,681	8,805,911	6,212,397	9,519,929

UNDERWRITING AND INVESTMENT EXHIBIT
PART 2C - DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS (000 Omitted)

Grand Total

Section A - Paid Health Claims

Year in Which Losses Were Incurred		Cumulative Net Amounts Paid				
		1 2000	2 2001	3 2002	4 2003	5 2004
1.	Prior	11,995	153	(11)		
2.	2000	52,750	9,831	(2)		
3.	2001	X X X	82,815	14,863	351	
4.	2002	X X X	X X X	57,024	9,837	45
5.	2003	X X X	X X X	X X X	50,589	6,113
6.	2004	X X X	X X X	X X X	X X X	42,820

Section B - Incurred Health Claims

Year in Which Losses Were Incurred		Sum of Cumulative Net Amount Paid and Claim Liability and Reserve Outstanding at End of Year				
		1 2000	2 2001	3 2002	4 2003	5 2004
1.	Prior	79,430	79,473	79,462	79,462	
2.	2000	63,021	62,583	62,580	62,580	
3.	2001	X X X	97,597	97,785	98,046	98,029
4.	2002	X X X	X X X	70,597	67,259	66,921
5.	2003	X X X	X X X	X X X	59,694	56,742
6.	2004	X X X	X X X	X X X	X X X	51,620

Section C - Incurred Year Health Claims and Claims Adjustment Expense Ratio

Years in Which Premiums were Earned and Claims were Incurred		1 Premiums Earned	2 Claims Payments	3 Claim Adjustment Expense Payments	4 (Col. 3/2) Percent	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 (Col. 5/1) Percent	7 Claims Unpaid	8 Unpaid Claims Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 (Col. 9/1) Percent
1.	2000										
2.	2001										
3.	2002	82,212	66,906	1,939	2.898	68,845	83.741	14		68,859	83.758
4.	2003	69,532	56,702	1,711	3.018	58,413	84.009	39	1	58,453	84.066
5.	2004	57,508	42,820	2,210	5.161	45,030	78.302	8,806	66	53,902	93.730

12 Total

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS (000 Omitted)

Hospital and Medical

Section A - Paid Health Claims

Year in Which Losses Were Incurred		Cumulative Net Amounts Paid				
		1 2000	2 2001	3 2002	4 2003	5 2004
1.	Prior	11,995	153	(11)		
2.	2000	52,750	9,831	(2)		
3.	2001	X X X	82,815	14,863	351	
4.	2002	X X X	X X X	57,024	9,837	45
5.	2003	X X X	X X X	X X X	50,589	6,113
6.	2004	X X X	X X X	X X X	X X X	42,820

Section B - Incurred Health Claims

Year in Which Losses Were Incurred		Sum of Cumulative Net Amount Paid and Claim Liability and Reserve Outstanding at End of Year				
		1 2000	2 2001	3 2002	4 2003	5 2004
1.	Prior	79,430	79,473	79,462	79,462	
2.	2000	63,021	62,583	62,580	62,580	
3.	2001	X X X	97,597	97,785	98,046	98,029
4.	2002	X X X	X X X	70,597	67,259	66,921
5.	2003	X X X	X X X	X X X	59,694	56,742
6.	2004	X X X	X X X	X X X	X X X	51,620

Section C - Incurred Year Health Claims and Claims Adjustment Expense Ratio

Years in Which Premiums were Earned and Claims were Incurred		1 Premiums Earned	2 Claims Payments	3 Claim Adjustment Expense Payments	4 (Col. 3/2) Percent	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 (Col. 5/1) Percent	7 Claims Unpaid	8 Unpaid Claims Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 (Col. 9/1) Percent
1.	2000										
2.	2001										
3.	2002	82,212	66,906	1,939	2.898	68,845	83.741	14		68,859	83.758
4.	2003	69,532	56,702	1,711	3.018	58,413	84.009	39	1	58,453	84.066
5.	2004	57,508	42,820	2,210	5.161	45,030	78.302	8,806	66	53,902	93.730

12	Underwriting Invest Exh Pt 2C Sn A - Paid Claims - Medicare Supplement	NONE
12	Underwriting Invest Exh Pt 2C Sn B - Incur. Claims - Medicare Supplement . . .	NONE
12	Underwriting Invest Exh Pt 2C Sn C - Expns Ratios - Medicare Supplement . .	NONE
12	Underwriting Invest Exh Pt 2C Sn A - Paid Claims - Dental Only	NONE
12	Underwriting Invest Exh Pt 2C Sn B - Incur. Claims - Dental Only	NONE
12	Underwriting Invest Exh Pt 2C Sn C - Expns Ratios - Dental Only	NONE
12	Underwriting Invest Exh Pt 2C Sn A - Paid Claims - Vision Only	NONE
12	Underwriting Invest Exh Pt 2C Sn B - Incur. Claims - Vision Only	NONE
12	Underwriting Invest Exh Pt 2C Sn C - Expns Ratios - Vision Only	NONE
12	Underwriting Invest Exh Pt 2C Sn A - Paid Claims - Fed Emp HBPP	NONE
12	Underwriting Invest Exh Pt 2C Sn B - Incur. Claims - Fed Emp HBPP	NONE
12	Underwriting Invest Exh Pt 2C Sn C - Expns Ratios - Fed Emp HBPP	NONE
12	Underwriting Invest Exh Pt 2C Sn A - Paid Claims - Title XVIII-Medicare	NONE
12	Underwriting Invest Exh Pt 2C Sn B - Incur. Claims - Title XVIII-Medicare	NONE
12	Underwriting Invest Exh Pt 2C Sn C - Expns Ratios - Title XVIII-Medicare	NONE
12	Underwriting Invest Exh Pt 2C Sn A - Paid Claims - Title XIX-Medicaid	NONE
12	Underwriting Invest Exh Pt 2C Sn B - Incur. Claims - Title XIX-Medicaid	NONE
12	Underwriting Invest Exh Pt 2C Sn C - Expns Ratios - Title XIX-Medicaid	NONE
12	Underwriting Invest Exh Pt 2C Sn A - Paid Claims - Other	NONE
12	Underwriting Invest Exh Pt 2C Sn B - Incur Claims - Other	NONE
12	Underwriting Invest Exh Pt 2C Sn C - Expns Ratios - Other	NONE
13	Underwriting Invest Exh Pt 2D - A & H Reserve	NONE

UNDERWRITING AND INVESTMENT EXHIBIT
PART 3 - ANALYSIS OF EXPENSES

		Claim Adjustment Expenses		3	4	5
		1	2			
		Cost Containment Expenses	Other Claim Adjustment Expenses	General Administrative Expenses	Investment Expenses	Total
1.	Rent (\$..... for occupancy of own building)	356,577	534,773	500,511		1,391,861
2.	Salaries, wages and other benefits	1,282,112	1,922,835	1,799,642		5,004,589
3.	Commissions (less \$..... ceded plus \$..... assumed)			2,062,568		2,062,568
4.	Legal fees and expenses			109,169		109,169
5.	Certifications and accreditation fees					
6.	Auditing, actuarial and other consulting services	119,566	110,847	737,482		967,895
7.	Traveling expenses	11,449	9,702	260,440		281,591
8.	Marketing and advertising	1,432	150	211,930		213,512
9.	Postage, express and telephone	20,826	320,922	1,478,178		1,819,926
10.	Printing and office supplies	11,605	57,134	1,186,002		1,254,741
11.	Occupancy, depreciation and amortization			45,045		45,045
12.	Equipment	176	126,808	115,191		242,175
13.	Cost or depreciation of EDP equipment and software					
14.	Outsourced services including EDP, claims, and other services	66,510	629,054	1,327,252		2,022,816
15.	Boards, bureaus and association fees					
16.	Insurance, except on real estate			922,202		922,202
17.	Collection and bank service charges					
18.	Group service and administration fees					
19.	Reimbursements by uninsured accident and health plans	(1,743,439)	(2,605,815)	(8,155,241)		(12,504,495)
20.	Reimbursements from fiscal intermediaries					
21.	Real estate expenses					
22.	Real estate taxes					
23.	Taxes, licenses and fees:					
23.1	State and local insurance taxes					
23.2	State premium taxes			287,663		287,663
23.3	Regulator authority licenses and fees					
23.4	Payroll taxes	103,288	153,213	1,080,680		1,337,181
23.5	Other (excluding federal income and real estate taxes)			24,036		24,036
24.	Investment expenses not included elsewhere					
25.	Aggregate write-ins for expenses	655,651	64,259	150,511		870,421
26.	Total expenses incurred (Lines 1 to 25)	885,753	1,323,882	4,143,261		(a) 6,352,896
27.	Less expenses unpaid December 31, current year		67,756	973,963		1,041,719
28.	Add expenses unpaid December 31, prior year		158,516	1,014,402		1,172,918
29.	Amounts receivable relating to uninsured accident and health plans, prior year					
30.	Amounts receivable relating to uninsured accident and health plans, current year					
31.	Total expenses paid (Lines 26 minus 27 plus 28 minus 29 plus 30) ..	885,753	1,414,642	4,183,700		6,484,095
DETAILS OF WRITE-INS						
2501.	Other Misc Expenses	5,650	64,259	150,511		220,420
2502.	Network Rental Fees	650,001				650,001
2503.	0					
2598.	Summary of remaining write-ins for Line 25 from overflow page					
2599.	Totals (Lines 2501 through 2503 + 2598)(Line 25 above)	655,651	64,259	150,511		870,421

(a) Includes management fees of \$.....10,368,017 to affiliates and \$..... to non-affiliates.

EXHIBIT OF NET INVESTMENT INCOME

		1	2
		Collected During Year	Earned During Year
1.	U.S. Government bonds	(a)..... 19,375	..... 60,718
1.1	Bonds exempt from U.S. tax	(a).....	.....
1.2	Other bonds (unaffiliated)	(a).....	.....
1.3	Bonds of affiliates	(a).....	.....
2.1	Preferred stocks (unaffiliated)	(b).....	.....
2.11	Preferred stocks of affiliates	(b).....	.....
2.2	Common stocks (unaffiliated) .....	.....	.....
2.21	Common stocks of affiliates .....	.....	.....
3.	Mortgage loans	(c).....	.....
4.	Real estate	(d).....	.....
5.	Contract loans .....	.....	.....
6.	Cash, cash equivalents and short-term investments	(e)..... 180,370	..... 188,268
7.	Derivative instruments	(f).....	.....
8.	Other invested assets .....	.....	.....
9.	Aggregate write-ins for investment income .....	.....	.....
10.	Total gross investment income .....	..... 199,745	..... 248,986
11.	Investment expenses	(g).....	
12.	Investment taxes, licenses and fees, excluding federal income taxes	(g).....	
13.	Interest expense	(h).....	
14.	Depreciation on real estate and other invested assets	(i).....	
15.	Aggregate write-ins for deductions from investment income .....	.....
16.	Total deductions (Lines 11 through 15) .....	.....
17.	Net Investment income (Line 10 minus Line 16) .....	..... 248,986	
DETAILS OF WRITE-INS			
0901.	0 .....	.....	.....
0902	.....	.....	.....
0903	.....	.....	.....
0998.	Summary of remaining write-ins for Line 9 from overflow page .....	.....	.....
0999.	TOTALS (Lines 0901 through 0903 plus 0998) (Line 9, above) .....	.....	.....
1501	.....	.....	.....
1502	.....	.....	.....
1503	.....	.....	.....
1598.	Summary of remaining write-ins for Line 15 from overflow page .....	.....	.....
1599.	TOTALS (Lines 1501 through 1503 plus 1598) (Line 15, above) .....	.....	.....
(a) Includes \$..... accrual of discount less \$..... amortization of premium and less \$..... paid for accrued interest on purchases.			
(b) Includes \$..... accrual of discount less \$..... amortization of premium and less \$..... paid for accrued dividends on purchases.			
(c) Includes \$..... accrual of discount less \$..... amortization of premium and less \$..... paid for accrued interest on purchases.			
(d) Includes \$..... for company's occupancy of its own buildings; and excluding \$..... interest on encumbrances.			
(e) Includes \$..... accrual of discount less \$..... amortization of premium and less \$..... paid for accrued interest on purchases.			
(f) Includes \$..... accrual of discount less \$..... amortization of premium.			
(g) Includes \$..... investment expenses and \$..... investment taxes, licenses and fees, excluding federal income taxes, attributable to segregated and Separate Accounts.			
(h) Includes \$..... interest on surplus notes and \$..... interest on capital notes.			
(i) Includes \$..... depreciation on real estate and \$..... depreciation on other invested assets.			

EXHIBIT OF CAPITAL GAINS (LOSSES)

		1	2	3	4
		Realized Gain (Loss) on Sales or Maturity	Other Realized Adjustments	Increases (Decreases) by Adjustment	Total
1.	U.S. Government bonds .....	.....	.....	.....	.....
1.1	Bonds exempt from U.S. tax .....	.....	.....	.....	.....
1.2	Other bonds (unaffiliated) .....	.....	.....	.....	.....
1.3	Bonds of affiliates .....	.....	.....	.....	.....
2.1	Preferred stocks (unaffiliated) .....	.....	.....	.....	.....
2.11	Preferred stocks of affiliates .....	.....	.....	.....	.....
2.2	Common stocks (unaffiliated) .....	.....	.....	.....	.....
2.21	Common stocks of affiliates .....	.....	.....	.....	.....
3.	Mortgage loans .....	.....	.....	.....	.....
4.	Real estate .....	.....	.....	.....	.....
5.	Contract loans .....	.....	.....	.....	.....
6.	Cash, cash equivalents and short-term investments .....	.....	.....	.....	.....
7.	Derivative instruments .....	.....	.....	.....	.....
8.	Other invested assets .....	.....	.....	.....	.....
9.	Aggregate write-ins for capital gains (losses) .....	.....	.....	.....	.....
10.	Total capital gains (losses) .....	.....	.....	.....	.....
DETAILS OF WRITE-INS					
0901	.....	.....	.....	.....	.....
0902	.....	.....	.....	.....	.....
0903	.....	.....	.....	.....	.....
0998.	Summary of remaining write-ins for Line 9 from overflow page .....	.....	.....	.....	.....
0999.	TOTALS (Lines 0901 through 0903 plus 0998) (Line 9, above) .....	.....	.....	.....	.....

NONE

EXHIBIT OF NONADMITTED ASSETS

		1	2	3
		Current Year Total Nonadmitted Assets	Prior Year Total Nonadmitted Assets	Change in Total Nonadmitted Assets (Col. 2 - Col. 1)
1.	Bonds (Schedule D)			
2.	Stocks (Schedule D):			
2.1	Preferred stocks			
2.2	Common stocks			
3.	Mortgage loans on real estate (Schedule B):			
3.1	First liens			
3.2	Other than first liens			
4.	Real estate (Schedule A):			
4.1	Properties occupied by the company			
4.2	Properties occupied by the production of income			
4.3	Properties held for sale			
5.	Cash (Schedule E-Part 1), cash equivalents (Schedule E-Part 2) and short-term investments (Schedule DA)			
6.	Contract loans			
7.	Other invested assets (Schedule BA)			
8.	Receivable for securities			
9.	Aggregate write-ins for invested assets			
10.	Subtotals, cash and invested assets (Lines 1 to 9)			
11.	Invested income due and accrued			
12.	Premium and considerations:			
12.1	Uncollected premiums and agents' balances in the course of collection			
12.2	Deferred premiums, agents' balances and installments booked but deferred and not yet due			
12.3	Accrued retrospective premiums			
13.	Reinsurance:			
13.1	Amounts recoverable from reinsurers			
13.2	Funds held by or deposited with reinsured companies			
13.3	Other amounts receivable under reinsurance contracts			
14.	Amounts receivable relating to uninsured plans			
15.1	Current federal and foreign income tax recoverable and interest thereon			
15.2	Net deferred tax asset			
16.	Guaranty funds receivable or on deposit			
17.	Electronic data processing equipment and software			
18.	Furniture and equipment, including health care delivery assets			
19.	Net adjustment in assets and liabilities due to foreign exchange rates			
20.	Receivable from parent, subsidiaries and affiliates			
21.	Health care and other amounts receivable			
22.	Other assets nonadmitted			
23.	Aggregate write-ins for other than invested assets			
24.	Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)			
25.	From Separate Accounts, Segregated Accounts and Protected Cell Accounts			
26.	Total (Lines 24 and 25)			
DETAILS OF WRITE-INS				
0901	.....		
0902	.....		
0903	.....		
0998.	Summary of remaining write-ins for Line 9 from overflow page			
0999.	TOTALS (Lines 0901 through 0903 plus 0998) (Line 9 above)			
2301	.....		
2302	.....		
2303	.....		
2398.	Summary of remaining write-ins for Line 23 from overflow page			
2399.	TOTALS (Lines 2301 through 2303 plus 2398) (Line 23 above)			

NONE

EXHIBIT 1 - ENROLLMENT BY PRODUCT TYPE FOR HEALTH BUSINESS ONLY

Source of Enrollment		Total Members at End of					6
		1 Prior Year	2 First Quarter	3 Second Quarter	4 Third Quarter	5 Current Year	Current Year Member Months
1.	Health Maintenance Organizations	4,450	3,556	3,346	3,777	3,607	42,680
2.	Provider Service Organizations						
3.	Preferred Provider Organizations						
4.	Point of Service	15,778	16,017	16,610	16,569	17,260	198,542
5.	Indemnity Only						
6.	Aggregate write-ins for other lines of business						
7.	TOTAL	20,228	19,573	19,956	20,346	20,867	241,222
DETAILS OF WRITE-INS							
0601.	0						
0602	.....					
0603	.....					
0698.	Summary of remaining write-ins for Line 6 from overflow page						
0699.	TOTALS (Lines 0601 through 0603 plus 0698) (Line 6 above)						

Notes to Financial Statement

QCA HEALTH PLAN, INC.

Notes to NAIC Filed Financial Statements Statutory Basis December 31, 2003 and 2004

(1) Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies used by QCA Health Plan, Inc., “the Company”, in the preparation of the accompanying financial statements. Such policies are in conformity with the Annual Statement Instructions and the Accounting Practices and Procedures Manual of the National Association of Insurance Commissioners (“NAIC”) and the accounting practices as prescribed or permitted by the Arkansas Insurance Department and are not intended to be a presentation in conformity with generally accepted accounting principles.

Cash and Cash Equivalents: The Company considers all cash accounts and all highly liquid debt instruments purchased with maturity of three months or less to be cash equivalents.

Investment Securities: Investment securities are held to maturity and are stated at cost adjusted for amortization of premiums and accretion of discounts computed by the interest method.

Non-Admitted Assets: Certain assets (principally premiums receivable greater than 90 days past due, pharmaceutical rebate receivables and prepaid expenses) designated as “non-admitted” are not included in the financial statements.

Income Taxes: Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the accounting for interest accrued on surplus notes payable for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Note 9 also comments on income tax calculations and deferred taxes. 2004 is the first year the company has recorded a deferred tax asset.

Revenue: Medical premium revenue is recognized in the month in which members are entitled to receive health care services. Medical premiums collected in advance are recorded as unearned premium revenue.

Cost of Benefits Provided: Cost of benefits provided includes the costs of all medical services delivered to enrolled members of the Company and for whom the Company has recorded medical premium revenue during the reporting period. These costs include payments for specific medical services paid to physicians, hospitals, and other health care providers on a fee-for-service basis. Costs of benefits include claims paid, claims in process and pending, estimates of incurred but not reported “IBNR” claims and charges, and processing costs of those estimates at the end of the fiscal year for which the Company will be responsible.

Premium Tax: Premium taxes are recorded based upon a percentage of billed premiums, in accordance with the regulations of the state in which the Company is licensed to do business.

Medical Claims Payable: Reported claims expected to be paid after December 31 for services provided to members prior to December 31 are recorded as liabilities. Claims for services provided to members during the financial reporting period which are unreported at December 31 are estimated based on the Company’s claims experience and recorded as liabilities. The amounts recorded are based upon estimates of the ultimate net cost of such services provided. These reserves are subject to continuous review by management and changes in estimates are reflected in earnings currently.

Notes to Financial Statement

Accounting Estimates: The preparation of financial statements in conformity with the accounting practices described above requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. It also requires disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates, but are not anticipated by management to differ by material amounts.

Receivables: In 2003 Premium Receivable on fully insured groups and self insured groups were combined on line 12.1 under the heading of uncollected premium receivable. In 2004 uncollected premiums on fully insured groups was listed under line 12.1, while amounts receivable relating to uninsured plans was listed on line 14.

Accounting Policy: In addition the company uses the following accounting policies:

Short-term investments are stated at amortized cost.

Bonds are state at amortized costing using the interest method.

The company owns not stocks.

(2) Accounting Changes and Corrections of Errors

The Company prepares its statutory financial statements in conformity with accounting practices prescribed or permitted by the State of Arkansas. Effective January 1, 2002, the State of Arkansas required that insurance companies domiciled in the State of Arkansas prepare their statutory basis financial statements in accordance with the NAIC Accounting Practices and Procedures manual subject to any deviations prescribed or permitted by the State of Arkansas insurance commissioner.

Accounting changes adopted to conform to the provisions of the NAIC *Accounting Practices and Procedures* manual are reported as changes in accounting principles. The cumulative effect of changes in accounting principles is reported as an adjustment to unassigned funds (surplus) in the period of the change in accounting principle.

Premium Receivables – The Company has recorded the premium receivables on this annual statement net of allowance for bad debts.

(3) Business Combinations and Goodwill

The Company was not party to a business combination within the reporting periods and does not carry goodwill on its statement of admitted assets, liabilities, and capital and surplus.

(4) Discontinued Operations

The Company did not discontinue any operations within the reporting period.

(5) Investments

The carrying value and estimated market value of investments in securities as of December 31, 2004 are as follows:

Notes to Financial Statement

	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Government securities	\$ 11,965,200	3,065	33,044	11,935,221

The carrying value and estimated market value of securities as of December 31, 2004, by contractual maturity, are shown below:

	Carrying Value	Estimated Market Value
Matures in one year or less	\$ 2,993,939	2,986,795
Matures in one to three years	8,971,261	8,948,426
	\$ 11,965,200	11,935,221

The Company also holds a U.S. Government debt security that is restricted due to regulatory requirements, which matures in one year or less and is held to maturity. At December 31, 2004 and 2003, the aggregate fair value was \$322,789 and \$326,958, respectively.

The Company has no mortgage loans, restructured debts, reverse mortgages, loan-backed securities, repurchase agreements or investment in real estate at this time.

(6) Joint Ventures, Partnerships, and Limited Liability Companies

The Company has no investments in Joint Ventures, Partnerships, or Limited Liability Companies.

(7) Investment Income

The Company’s investment income was earned on bank accounts, short term and long term bonds and notes. No income was excluded. All investment income was recorded. Information concerning the notes is documented on schedules D and DA of the annual blank.

(8) Derivative Instruments

The Company has no derivative instruments.

(9) Income Taxes

The Company’s net deferred tax asset account was comprised of the following as of December 31, 2004 and 2003:

	2004	2003
Deferred tax assets	\$ 4,764,788	6,133,877
Valuation allowance	(4,193,788)	(6,133,877)
	\$ 571,000	-

The Company has available as of December 31, 2004 unused operating loss carryforwards that may be applied against future taxable income and that expire as follows:

Notes to Financial Statement

<u>Year of Expiration</u>	<u>Unused Operating Loss Carryforwards</u>
2019	8,427,204
2020	4,145,090
2021	<u>557,462</u>
	<u>13,129,756</u>

The provision for income taxes in the financial statements differs from the amount determined by applying the statutory Federal income rate to earnings before income taxes. The reconciling items and amounts as of December 31, 2004 are as follows:

Expected income tax expense	\$	837,338
Benefit from net operating loss carryforwards		<u>(653,922)</u>
	\$	<u>183,416</u>

(10) Information Concerning Parent, Subsidiaries and Affiliates

(A.) The Company’s shareholders are documented on page 51 of this statement. In November 1999, the Company entered into a service agreement with an affiliate of a stockholder whereby the affiliate would provide a full range of administrative, managerial and technological services as well as the continued license software rights that the Company had previously obtained from the stockholder. An amendment to this agreement was entered into effective November 30,2001 whereby the term of the agreement will continue until December 31, 2007 and will be renewed automatically for additional renewal terms of 1 year thereon. The affiliate may also terminate the agreement in the event that the Company is not compliant with the risk based capital requirements contained within the amendment. The Company also pays medical claims to the hospital owners on various lines of business.

(B. & C.) The Company paid Novalis Corporation \$10,368,017 in 2004, \$9,919,145 in 2003, \$11,493,743 in 2002 and \$6,465,412 in 2001 for services mentioned in the proceeding paragraph.

Under provisions of various provider contracts, the Company paid \$41,808,953 and \$47,993,499 to hospitals owned by or affiliated with a stockholder during 2004 and 2003, respectively. The above amounts include payments on ASO business as well as HMO.

The Company entered into an agreement with Qualchoice of Arkansas, Inc. (“Qualchoice”) in November 2001, whereby the Company began processing claims on behalf of employers that sponsor health benefit plans for employees. The Company is to assume the obligations to perform such duties under the existing contracts with Qualchoice, and Qualchoice’s provider network.

The Company administers the self-funded health benefit plans for all or a portion of the employees of three stockholders (see Note 18). Revenue in the amount of \$3,665,990 and \$3,725,575 was received from these three for such services during 2004 and 2003, respectively.

No additional Paid-in-Capital was received during the current year.

(D.) As of December 31, 2004 the Company reported amounts from affiliates of \$581,788. This amount was due from QualChoice of Arkansas. The reported amount due to parents was \$53,595. \$25,986 was due to Qualchoice of Arkansas and \$27,609 was due to Novalis Corporation.

(F.) Information concerning material management or service contracts is disclosed in A-C above.

Notes to Financial Statement

(G.) N/A
(H.) N/A
(I.) N/A
(J.) N/A

(11) Debt

The Company had the following surplus notes payable at December 31:

	<u>2004</u>	<u>2003</u>
Surplus notes payable to various stockholders with interest at 8.5%, principal payments beginning in April 2000, convertible into 12,529 shares of common stock at any time prior to maturity	\$4,568,000	\$4,568,000
Surplus notes payable to various affiliates of a stockholder with interest at 8.5%, principal payments beginning in April 2001, convertible into 5,576 shares of common stock at any time prior to maturity.	3,150,000	3,150,000
Surplus note payable to stockholder with interest at 3% principal payments beginning in April 2010	5,000,000	5,000,000
Surplus notes payable to an affiliate of a stockholder with interest at 8.5%, principal payments beginning in April 2001, convertible into 2,703 shares of common Stock at any time prior to maturity	1,500,000	1,500,000
Surplus notes payable to various stockholders with interest at 8.5%, principal payments beginning in April 2001, convertible into 5,392 shares of common stock at any time prior to maturity	<u>2,992,808</u>	<u>2,992,808</u>
	<u>\$17,210,808</u>	<u>\$17,210,808</u>

Principal payments on the surplus notes are due each April 15 to the extent that there is surplus capital at the end of the previous year calculated in accordance with a formula prescribed by the Arkansas Department of Insurance and their approval.

No interest was paid during the years ended December 31, 2004 and 2003.

The \$5,000,000 note listed above has common stock purchase warrants, which entitle the holder to purchase 9,009 shares of the Company’s common stock for \$.10 per share. The warrants become exercisable for a five year period beginning with the occurrence of the earliest of the following: (1) closing of the Company’s initial public offering, (2) change in control, as defined in the agreement, or (3) November 2004. As of December 31, 2004 no warrants were exercised.

(12) Retirement Plans, Deferred Compensation, Postemployment Benefits and Compensated Absences and Other Postretirement Benefit Plans

The Company has an employee 401 (k) plan covering all full-time employees of the Company who have completed three months of employment and choose to participate. The Company contributes an amount equal to the portion of the employee’s contribution, which does not exceed 3% of the employee’s salary. Contributions to the plan during 2004 and 2003 totaled \$99,037 and \$106,028, respectively.

Notes to Financial Statement

(13) Capital and Surplus, Shareholders' Dividend Restrictions and Quasi-Reorganizations

The Company has 50,000 shares of \$.10 per share par value common stock authorized and 11,925 shares outstanding. The Company has no preferred stock. The Company has no plans to pay dividends on its common stock in the foreseeable future. The Company has surplus notes issued totaling \$17,210,808 (see Note 11).

(14) Contingencies

The Company is not aware of any contingent liabilities as of December 31, 2004.

In the normal course of business, the Company is involved in litigation from time to time with claimants and others. Although the outcomes of any such legal actions cannot be predicted, in the opinion of management, the resolution of any currently pending or threatened actions will not have a material adverse effect upon the financial position or results of operations of the Company.

(15) Leases

The Company had no material leases at year-end 2004.

(16) Information About Financial Instructions With Off-Balance Sheet Risk and Financial Instruments With Concentrations of Credit Risk

The Company does not have any off-balance sheet risk.

(17) Sale, Transfer and Servicing of Financial Assets and Extinguishments of Liabilities

The Company has not been involved in any sale, transfer and servicing of financial assets and extinguishments of liabilities as of December 31, 2004.

(18) Gain or Loss to the Reporting Entity from Uninsured Plans and the Uninsured Portion of Partially Insured Plans

In 2004 the Company had Administrative Services Only (ASO) contracts and minimum premium contracts, for which the employer retained all health care service risk, while the Company assumed administrative risk. The Company recorded administrative fee revenues of approximately \$12,504,495 and \$10,810,756 for 2004 and 2003, respectively. The amounts are not recorded as revenue in this statutory statement, but are recorded as a reduction in operating expenses on page 14. The approximate net gain on this business was \$52,090 and \$119,138 for 2004 and 2003, respectively. The claims volume was approximately \$120,789,888 and \$106,994,677 for 2004 and 2003, respectively. The Company has no Medicare or similarly structured cost based reimbursement contracts.

(19) Direct Premium Written/Produced by Managing General Agents/Third Party Administrators

Notes to Financial Statement

The Company does not have and has not had any direct premium written/produced by managing general agents/third party administrators in the reporting period.

(20) September 11 Events

The Company had no material impact on its business related to the terrorist attacks of September 11, 2001.

(21) Other Items

The Company had **no** extraordinary items, troubled debt restructuring, other disclosures or recorded uncollectible assets covered by SSAP No. 6 as of December 31, 2004. The company has no admitted pharmaceutical rebate receivables per instruction of the Arkansas Insurance Department. Certain Minimum Premium business was listed in the membership report as minimum premium in 2001; this is not listed in 2002, 2003 or 2004 as it is considered non-risk business. The premium is also not listed as HMO premium as is the case with other non-risk business.

(22) Events Subsequent

The company had no significant subsequent events.

(23) Reinsurance

The Company is covered under a medical reinsurance agreement effective October 1, 2004 through September 30, 2005 that provides annual coverage for eligible in area and out of area emergency hospital services of 90% in excess of \$150,000 per member. These overages are limited to an average of \$4,000 per day over the entire length of stays in the hospital with a maximum of \$2,000,000 per member in the contract year. The policy covers inpatient hospital services; subacute facility services; skilled nursing facility and rehabilitation facility services; hospice services; home health agency services; outpatient facility services and outpatient prescription drugs. The non-inpatient services have lower daily and annual limits than inpatient services. The Company renewed its policy October 2004 with Employers Reinsurance Company.

The reinsurance limitation of the maximum average per day is waived for transplant services performed in a hospital whose negotiated arrangement has been approved by the reinsurer. The Company is also covered under a catastrophic reinsurance agreement effective October 1, 2004 through September 30, 2005, that provides annual coverage for eligible hospital services not covered by the medical reinsurance agreement of 90% in excess of \$500,000 per member with coverage limited to an average of \$10,000 per day over the entire length of stays in the hospital with a maximum of \$2,000,000 per member.

The Company does not have any booked reinsurance recoveries at year-end, therefore no unsecured recoveries or recoveries are in dispute. The Company has no return commission, which would have been due if the company had cancelled the reinsurance. The company has no retroactive reinsurance agreements. The reinsurance does not have retroactive termination arrangement clause.

(24) Retrospectively Rated Contracts & Contracts Subject to Redetermination

The Company has no retrospectively rated contracts.

Notes to Financial Statement

(25) Change in Incurred Claims and Claim Adjustment Expenses

The Company does not have any changes in the provision for incurred claim and claim adjustment expenses attributable to insured events of prior years.

(26) Intercompany Pooling Arrangements

The company is not a part of a group of affiliated insurers that utilizes a pooling arrangement.

(27) Structured Settlements

Per the NAIC instructions this note should not be completed by Health Entities.

(28) Health Care Receivables

The Company has not recorded pharmacy rebates receivables as of December 31, 2004. For the most previous four years and for each quarter therein, the reporting entity experienced the following activity relating to pharmacy rebates:

For 2004 Blanks					
Pharmaceutical Rebate Receivables					
(1000's)					
Quarter	Estimated Pharmacy Rebates as Reported on Financial Statements	Pharmacy Rebates as Billed or Otherwise Confirmed	Actual Rebates Received Within 90 Days of Confirmed	Actual Rebates Received Within 91 to 180 Days of Billing	Actual Rebates Received More Than 180 Days After Billing
12/31/2004	0	0	0	0	0
9/30/2004	0	0	0	0	0
6/30/2004	0	433,814	203,634	230,180	0
3/31/2004	0	424,801	204,199	195,335	25,267
12/31/2003	0	387,410	175,092	204,199	8,119
9/30/2003	0	421,728	221,994	175,092	24,642
6/30/2003	17,282	414,459	177,775	221,955	14,729
3/31/2003	50,177	447,343	213,032	177,755	56,556
12/31/2002	148,483	434,773	160,499	213,032	61,242
9/30/2002	51,116	451,114	203,792	160,499	86,823
6/30/2002	265,721	546,811	283,380	203,729	59,702
3/31/2002	248,808	337,132	0	283,380	53,752
12/31/2001	351,049	419,702	177,391	91,287	151,024
9/30/2001	264,200	264,201		180,585	83,616
6/30/2001	350,836	350,827	170,242		180,585
3/31/2001	263,498	263,489		170,242	93,247

(29) Participating Policies

Notes to Financial Statement

The Company does not sell individual policies. The company has not issued policyholder dividends.

(30) Premium Deficiency Reserves

The Company has no premium deficiency reserves.

(31) Anticipated Salvage and Subrogation

The Company took into account estimated anticipated salvage and subrogation in its determination of the liability for unpaid claims/losses (IBNR) and reported such liability net of subrogation.

SUMMARY INVESTMENT SCHEDULE

Investment Categories		Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
		1 Amount	2 Percentage	3 Amount	4 Percentage
1.	Bonds:				
1.1	U.S. treasury securities	2,985,074	13.618	2,985,074	13.618
1.2	U.S. government agency and corporate obligations (excluding mortgage-backed securities):				
1.21	Issued by U.S. government agencies				
1.22	Issued by U.S. government sponsored agencies	6,981,987	31.853	6,981,987	31.853
1.3	Foreign government (including Canada, excluding mortgage-backed securities)				
1.4	Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
1.41	States, territories and possessions general obligations				
1.42	Political subdivisions of states, territories and possessions and political subdivisions general obligations				
1.43	Revenue and assessment obligations				
1.44	Industrial development and similar obligations				
1.5	Mortgage-backed securities (includes residential and commercial MBS):				
1.51	Pass-through securities:				
1.511	Issued or Guaranteed by GNMA				
1.512	Issued or Guaranteed by FNMA and FHLMC				
1.513	All other				
1.52	CMOs and REMICs:				
1.521	Issued or guaranteed by GNMA, FNMA or FHLMC or VA				
1.522	Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521				
1.523	All other				
2.	Other debt and other fixed income securities (excluding short term):				
2.1	Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)				
2.2	Unaffiliated foreign securities				
2.3	Affiliated securities				
3.	Equity interests:				
3.1	Investments in mutual funds				
3.2	Preferred stocks:				
3.21	Affiliated				
3.22	Unaffiliated				
3.3	Publicly traded equity securities (excluding preferred stocks):				
3.31	Affiliated				
3.32	Unaffiliated				
3.4	Other equity securities:				
3.41	Affiliated				
3.42	Unaffiliated				
3.5	Other equity interests including tangible personal property under lease:				
3.51	Affiliated				
3.52	Unaffiliated				
4.	Mortgage loans:				
4.1	Construction and land development				
4.2	Agricultural				
4.3	Single family residential properties				
4.4	Multifamily residential properties				
4.5	Commercial loans				
4.6	Mezzanine real estate loans				
5.	Real estate investments:				
5.1	Property occupied by company				
5.2	Property held for production of income (includes \$..... of property acquired in satisfaction of debt)				
5.3	Property held for sale (\$..... including property acquired in satisfaction of debt)				
6.	Policy loans				
7.	Receivables for securities				
8.	Cash, cash equivalents and short-term investments	11,952,373	54.529	11,952,373	54.529
9.	Other invested assets				
10.	Total invested assets	21,919,434	100.000	21,919,434	100.000

GENERAL INTERROGATORIES
PART 1 - COMMON INTERROGATORIES
GENERAL

- 1.1 Is the reporting entity a member of an Insurance Holding Company System consisting of two or more affiliated persons, one or more of which is an insurer?

Yes[] No[X]
- 1.2 If yes, did the reporting entity register and file with its domiciliary State Insurance Commissioner, Director or Superintendent or with such regulatory official of the state of domicile of the principal insurer in the Holding Company System, a registration statement providing disclosure substantially similar to the standards adopted by the National Association of Insurance Commissioners (NAIC) in its Model Insurance Holding Company System Regulatory Act and model regulations pertaining thereto, or is the reporting entity subject to standards and disclosure requirements substantially similar to those required by such Act and regulations?

Yes[] No[] N/A[X]
- 1.3 State Regulating?
- 2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity?

Yes[] No[X]
- 2.2 If yes, date of change:
If not previously filed, furnish herewith a certified copy of the instrument as amended.
- 3.1 State as of what date the latest financial examination of the reporting entity was made or is being made.

12/31/2002
- 3.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released.

12/31/2002
- 3.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date).

04/12/2004
- 3.4 By what department or departments?
Arkansas Insurance Department
- 4.1 During the period covered by this statement, did any agent, broker, sales representative, non-affiliated sales/service organization or any combination thereof under common control (other than salaried employees of the reporting entity) receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:
- 4.11 sales of new business?

Yes[] No[X]
- 4.12 renewals?

Yes[] No[X]
- 4.2 During the period covered by this statement, did any sales/service organization owned in whole or in part by the reporting entity or an affiliate, receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:
- 4.21 sales of new business?

Yes[] No[X]
- 4.22 renewals?

Yes[] No[X]
- 5.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement?

Yes[] No[X]
- 5.2 If yes, provide the name of the entity, NAIC company code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

1	2	3
Name of Entity	NAIC Company Code	State of Domicile

- 6.1 Has the reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period? (You need not report an action either formal or informal, if a confidentiality clause is part of the agreement)

Yes[] No[X]
- 6.2 If yes, give full information:
- 7.1 Does any foreign (non-United States) person or entity directly or indirectly control 10% or more of the reporting entity?

Yes[] No[X]
- 7.2 If yes,
- 7.21 State the percentage of foreign control

 %
- 7.22 State the nationality(s) of the foreign person(s) or entity(s); or if the entity is a mutual or reciprocal, the nationality of its manager or attorney-in-fact and identify the type of entity(s) (e.g., individual, corporation, government, manager or attorney-in-fact)

1	2
Nationality	Type of Entity

- 8.1 Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board?

Yes[] No[X]
- 8.2 If response to 8.1 is yes, please identify the name of the bank holding company.
- 8.3 Is the company affiliated with one or more banks, thrifts or securities firms?

Yes[] No[X]
- 8.4 If response to 8.3 is yes, please provide the names and location (city and state of the main office) of any affiliates regulated by a federal financial regulatory services agency [i.e., the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC) and identify the affiliate's primary federal regulator.

1	2	3	4	5	6	7
Affiliate Name	Location (City, State)	FRB	OCC	OTS	FDIC	SEC
		Yes[] No[X]	Yes[] No[X]	Yes[] No[X]	Yes[] No[X]	Yes[] No[X]

9. What is the name and address of the independent certified public accountant or accounting firm retained to conduct the annual audit?
Rasco, Winter & Associates LLP 400 West Capitol, Sutie 2380 Little Rock, Arkansas 72201-3458
10. What is the name, address and affiliation (officer/employee of the reporting entity or actuary/consultant associated with a(n) actuarial consulting firm) of the individual providing the statement of actuarial opinion/certification?
Milliman USA One Pennsylvania Plaza, 38th Floor New York, New York 10119
11. FOR UNITED STATES BRANCHES OF ALIEN REPORTING ENTITIES ONLY:
- 11.1 What changes have been made during the year in the United States manager or the United States trustees of the reporting entity?
- 11.2 Does this statement contain all business transacted for the reporting entity through its United States Branch on risks wherever located?

Yes[] No[X]
- 11.3 Have there been any changes made to any of the trust indentures during the year?

Yes[] No[X]
- 11.4 If answer to (11.3) is yes, has the domiciliary or entry state approved the changes?

Yes[] No[] N/A[X]

BOARD OF DIRECTORS

12. Is the purchase or sale of all investments of the reporting entity passed upon either by the Board of Directors or a subordinate committee thereof?

Yes[] No[X]
13. Does the reporting entity keep a complete permanent record of the proceedings of its Board of Directors and all subordinate committees thereof?

Yes[X] No[]
14. Has the reporting entity an established procedure for disclosure to its board of directors or trustees of any material interest or affiliation on the part of any of its officers, directors, trustees or responsible employees which is in or is likely to conflict with the official duties of such person?

Yes[] No[X]

GENERAL INTERROGATORIES (Continued)
FINANCIAL

15.1 Total amount loaned during the year (inclusive of Separate Accounts, exclusive of policy loans):

15.11 To directors or other officers

15.12 To stockholders not officers

15.13 Trustees, supreme or grand (Fraternal only)

\$
\$
\$

15.2 Total amount of loans outstanding at end of year (inclusive of Separate Accounts, exclusive of policy loans):

15.21 To directors or other officers

15.22 To stockholders not officers

15.23 Trustees, supreme or grand (Fraternal only)

\$
\$
\$

16.1 Were any assets reported in this statement subject to a contractual obligation to transfer to another party without the liability for such obligation being reported in the statement?

Yes[] No[X]

16.2 If yes, state the amount thereof at December 31 of the current year:

16.21 Rented from others

16.22 Borrowed from others

16.23 Leased from others

16.24 Other

\$
\$
\$
\$

Disclose in Notes to Financial the nature of each obligation.

17.1 Does this statement include payments for assessments as described in the Annual Statement Instructions other than guaranty fund or guaranty association assessments?

Yes[] No[X]

17.2 If answer is yes:

17.21 Amount paid as losses or risk adjustment

17.22 Amount paid as expenses

17.23 Other amounts paid

\$
\$
\$

INVESTMENT

18. List the following capital stock information for the reporting entity:

	1	2	3	4	5	6
Class	Number of Shares Authorized	Number of Shares Outstanding	Par Value Per Share	Redemption Price If Callable	Is Dividend Rate Limited?	Are Dividends Cumulative?
1. Preferred					Yes[] No[] N/A[X]	Yes[] No[] N/A[X]
2. Common	50,000.000	11,925.000	0.100	X X X	X X X	X X X

19.1 Were all the stocks, bonds and other securities owned December 31 of current year, over which the reporting entity has exclusive control, in the actual possession of the reporting entity on said date, except as shown by Schedule E - Part 3 - Special Deposits?

Yes[] No[X]

19.2 If no, give full and complete information, relating thereto:

Funds are held by Arvest Bank, Trust Department, Little Rock, AR and Simmons Trust Department, Little Rock, AR

20.1 Were any of the stocks, bonds or other assets of the reporting entity owned at December 31 of the current year not exclusively under the control of the reporting entity, except as shown on Schedule E - Part 3 - Special Deposits, or has the reporting entity sold or transferred any assets subject to a put option contract that is currently in force? (Exclude securities subject to Interrogatory 16.1).

Yes[] No[X]

20.2 If yes, state the amount thereof at December 31 of the current year:

20.21 Loaned to others

20.22 Subject to repurchase agreements

20.23 Subject to reverse repurchase agreements

20.24 Subject to dollar repurchase agreements

20.25 Subject to reverse dollar repurchase agreements

20.26 Pledged as collateral

20.27 Placed under option agreements

20.28 Letter stock or securities restricted as to sale

20.29 Other

\$
\$
\$
\$
\$
\$
\$
\$
\$

20.3 For category (20.28) provide the following:

1	2	3
Nature of Restriction	Description	Amount
.....

21.1 Does the reporting entity have any hedging transactions reported on Schedule DB?

Yes[] No[X]

21.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state?

Yes[] No[] N/A[X]

If no, attach a description with this statement.

22.1 Were any preferred stocks or bonds owned as of December 31 of the current year mandatorily convertible into equity, or, at the option of the issuer, convertible into equity?

Yes[] No[X]

22.2 If yes, state the amount thereof at December 31 of the current year.

\$.....

23. Excluding items in Schedule E, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Part 1 - General, Section IV.H - Custodial or Safekeeping agreements of the NAIC Financial Condition Examiners Handbook?

Yes[X] No[]

23.01 For agreements that comply with the requirements of the NAIC Financial Condition Examiners Handbook, complete the following:

1	2
Name of Custodian(s)	Custodian's Address
Arvest Asset Management	200 Commerce Dr. Ste. 100, Little Rock, AR
Simmons First National Bank	8315 Cantrell Road, Suite 200, Little Rock, AR

23.02 For all agreements that do not comply with the requirements of the NAIC Financial Condition Examiners Handbook, provide the name, location and a complete explanation:

GENERAL INTERROGATORIES (Continued)

1 Name(s)	2 Location(s)	3 Complete Explanation(s)
.....

23.03 Have there been any changes, including name changes, in the custodian(s) identified in 23.01 during the current year?

23.04 If yes, give full and complete information relating thereto:

Yes[X] No[]

1 Old Custodian	2 New Custodian	3 Date of Change	4 Reason
none	Arvest Bank Trust Department	09/21/2004 .	Started Investment program
none	Simmons First National Bank	09/21/2004 .	Started Investment program

23.05 Identify all investment advisers, brokers/dealers or individuals acting on behalf of broker/dealers that have access to the investment accounts, handle securities and have authority to make investments on behalf of the reporting entity:

1 Central Registration Depository Number(s)	2 Name	3 Address
.....	Becky Parcher	200 Commerce Dr., Ste. 100, Little Rock, AR
.....	Dave Sandlin	8315 Cantrell Road, Suite 200, Little Rock, AR

24.1 Does the reporting entity have any diversified mutual funds reported in Schedule D, Part 2 (diversified according to the Securities and Exchange Commission (SEC) in the Investment Company Act of 1940 [Section 5 (b)(1)])?

24.2 If yes, complete the following schedule:

Yes[] No[X]

1 CUSIP #	2 Name of Mutual Fund	3 Book/Adjusted Carrying Value
24.2999 Total

24.3 For each mutual fund listed in the table above, complete the following schedule:

1 Name of Mutual Fund (from above table)	2 Name of Significant Holding of the Mutual Fund	3 Amount of Mutual Fund's Book/Adjusted Carrying Value Attributable to the Holding	4 Date of Valuation
.....

25 Provide the following information for all short term and long term bonds and all preferred stocks. Do not substitute amortized value or statement value for fair value.

	1 Statement (Admitted) Value	2 Fair Value	3 Excess of Statement over Fair Value (-), or Fair Value over statement (+)
25.1 Bonds	9,967,061	9,940,065	(26,996)
25.2 Preferred stocks .....	.....	.....	.....
25.3 Totals	9,967,061	9,940,065	(26,996)

25.4 Describe the sources of methods utilized in determining the fair values
Provided by bank statements/Trust Company reporting

26.1 Have all the filing requirements of the Purposes and Procedures manual of the NAIC Securities Valuation Office been followed?

26.2 If no, list exceptions:

Yes[X] No[]

OTHER

27.1 Amount of payments to Trade Associations, Service Organizations and Statistical or Rating Bureaus, if any?

27.2 List the name of the organization and the amount paid if any such payment represented 25% or more of the total payments to Trade Associations, Service Organizations and Statistical or Rating Bureaus during the period covered by this statement.

\$

1 Name	2 Amount Paid
.....

28.1 Amount of payments for legal expenses, if any?

28.2 List the name of the firm and the amount paid if any such payments represented 25% or more of the total payments for legal expenses during the period covered by this statement.

\$ 54,751

GENERAL INTERROGATORIES (Continued)

1 Name	2 Amount Paid
Wright, Lindsey and Jennings	34,421
McDermott, Will, Emery	20,056

29.1 Amount of payments for expenditures in connection with matters before legislative bodies, officers or department of government, if any?

29.2 List the name of firm and the amount paid if any such payment represented 25% or more of the total payment expenditures in connection with matters before legislative bodies officers or department of government during the period covered by this statement.

\$.....

1 Name	2 Amount Paid
.....

GENERAL INTERROGATORIES (continued)

PART 2 - HEALTH INTERROGATORIES

- 1.1 Does the reporting entity have any direct Medicare Supplement Insurance in force?

Yes[] No[X]
- 1.2 If yes, indicate premium earned on U.S. business only:

\$
- 1.3 What portion of Item (1.2) is not reported on the Medicare Supplement Insurance Experience Exhibit?

\$
- 1.31 Reason for excluding:

\$
- 1.4 Indicate amount of earned premium attributable to Canadian and/or Other Alien not included in Item (1.2) above.

\$
- 1.5 Indicate total incurred claims on all Medicare Supplement insurance.

\$
- 1.6 Individual policies - Most current three years:

\$
- 1.61 Total premium earned

\$
- 1.62 Total incurred claims

\$
- 1.63 Number of covered lives

\$
- All years prior to most current three years:

\$
- 1.64 Total premium earned

\$
- 1.65 Total incurred claims

\$
- 1.66 Number of covered lives

\$
- 1.7 Group policies - Most current three years:

\$
- 1.71 Total premium earned

\$
- 1.72 Total incurred claims

\$
- 1.73 Number of covered lives

\$
- All years prior to most current three years:

\$
- 1.74 Total premium earned

\$
- 1.75 Total incurred claims

\$
- 1.76 Number of covered lives

\$

2. Health Test

		1	2
		Current Year	Prior Year
2.1	Premium Numerator	56,883,747	68,934,338
2.2	Premium Denominator	56,883,747	68,934,338
2.3	Premium Ratio (2.1 / 2.2)	1.000	1.000
2.4	Reserve Numerator	8,859,592	9,519,929
2.5	Reserve Denominator	8,927,348	9,678,445
2.6	Reserve Ratio (2.4 / 2.5)	0.992	0.984

- 3.1 Has the reporting entity received any endowment or gift from contracting hospitals, physicians, dentists, or others that is agreed will be returned when, as and if the earnings of the reporting entity permits?

Yes[] No[X]
- 3.2 If yes, give particulars:
- 4.1 Have copies of all agreements stating the period and nature of hospitals', physicians', and dentists' care offered to subscribers and departments been filed with the appropriate regulatory agency?

Yes[X] No[]
- 4.2 If not previously filed furnish herewith a copy(ies) of such agreement(s). Do these agreements include additional benefits offered?

Yes[] No[X]
- 5.1 Does the reporting entity have stop-loss reinsurance?

Yes[X] No[]
- 5.2 If no, explain:
- 5.3 Maximum retained risk (see instructions):

\$ 335,000
- 5.31 Comprehensive Medical

\$
- 5.32 Medical Only

\$
- 5.33 Medicare Supplement

\$
- 5.34 Dental

\$
- 5.35 Other Limited Benefit Plan

\$
- 5.36 Other

\$
6. Describe arrangement which the reporting entity may have to protect subscribers and their dependents against the risk of insolvency including hold harmless provisions, conversion privileges with other carriers, agreements with providers to continue rendering services, and any other agreements:
Provider contracts have hold harmless agreements and continuity of care provisions. Through the reinsurance company \$5,000,000 is reinsured for continuation of benefits in event of insolvency.
- 7.1 Does the reporting entity set up its claim liability for provider services on a service data base?

Yes[X] No[]
- 7.2 If no, give details:
8. Provide the following information regarding participating providers:
- 8.1 Number of providers at start of reporting year

..... 4671
- 8.2 Number of providers at end of reporting year

..... 5400
- 9.1 Does the reporting entity have business subject to premium rate guarantees?

Yes[] No[X]
- 9.2 If yes, direct premium earned:
- 9.21 Business with rate guarantees between 15-36 months

..... 0
- 9.22 Business with rate guarantees over 36 months

..... 0
- 10.1 Does the reporting entity have Incentive Pool, Withhold or Bonus Arrangements in its provider contracts?

Yes[X] No[]
- 10.2 If yes:
- 10.21 Maximum amount payable bonuses

\$
- 10.22 Amount actually paid for year bonuses

\$
- 10.23 Maximum amount payable withholds

\$ 766,242
- 10.24 Amount actually paid for year withholds

\$ 766,242
- 11.1 Is the reporting entity organized as:
- 11.12 A medical Group/Staff Model,

Yes[] No[X]
- 11.13 An Individual Practice Association (IPA), or,

Yes[] No[X]
- 11.14 A Mixed Model (combination of above)?

Yes[X] No[]
- 11.2 Is the reporting entity subject to Minimum Net Worth Requirements?

Yes[X] No[]
- 11.3 If yes, show the name of the state requiring such net worth.
Arkansas
- 11.4 If yes, show the amount required.

\$ 100,000
- 11.5 Is this amount included as part of a contingency reserve in stockholder's equity?

Yes[X] No[]
- 11.6 If the amount is calculated, show the calculation.
Net Worth requirement of \$100,000 plus certain RBC requirements of the State. The RBC calculations are included with this filing
12. List service areas in which the reporting entity is licensed to operate:

GENERAL INTERROGATORIES (Continued)

1
Name of Service Area
State of Arkansas

FIVE-YEAR HISTORICAL DATA

	1 2004	2 2003	3 2002	4 2001	5 2000
BALANCE SHEET ITEMS (Pages 2 and 3)					
1. Total admitted assets (Page 2, Line 26)	23,527,284	21,620,466	21,397,654	21,508,830	15,266,885
2. Total liabilities (Page 3, Line 22)	11,293,864	12,237,385	16,906,554	19,178,286	13,174,322
3. Statutory surplus	2,481,421	2,809,833	3,367,163	2,994,278	2,075,929
4. Total capital and surplus (Page 3, Line 30)	12,233,420	9,383,081	4,491,100	2,330,544	2,092,563
INCOME STATEMENT ITEMS (Page 4)					
5. Total revenues (Line 8)	56,883,747	68,934,338	81,326,814	111,302,577	68,388,216
6. Total medical and hospital expenses (Line 18)	48,318,399	56,616,965	69,741,847	97,379,101	62,333,448
7. Claims adjustment expenses (Line 20)	2,209,635	1,711,242			
8. Total administrative expenses (Line 21)	4,143,261	6,083,244	7,929,471	10,149,822	13,041,410
9. Net underwriting gain (loss) (Line 24)	2,212,452	4,522,887	1,716,294	(1,137,428)	(6,323,086)
10. Net investment gain (loss) (Line 27)	248,986	220,613	241,704	561,658	782,263
11. Total other income (Lines 28 plus 29)	1,320				99,244
12. Net income or (loss) (Line 32)	2,279,342	4,743,500	1,957,998	(575,770)	(5,441,579)
RISK-BASED CAPITAL ANALYSIS					
13. Total adjusted capital	12,233,420	9,383,081	4,491,100	2,330,544	2,092,563
14. Authorized control level risk-based capital	2,481,421	2,809,833	3,367,163	4,277,541	2,949,696
ENROLLMENT (Exhibit 1)					
15. Total members at end of period (Column 5, Line 7)	20,867	20,228	33,686	67,118	51,312
16. Total members months (Column 6, Line 7)	241,222	341,255	454,888	802,632	596,004
OPERATING PERCENTAGE (Page 4)					
(Item divided by Page 4, sum of Lines 2, 3 and 5)x 100.0					
17. Premiums earned (Lines 2 plus 3)	100.0	100.0	100.0	100.0	100.0
18. Total hospital and medical (Line 18)	85	82	86	87	91
19. Cost containment expenses	2	X X X	X X X	X X X	X X X
20. Other claims adjustment expenses	2				
21. Total underwriting deductions (Line 23)	96	93	98	101	109
22. Total underwriting gain (loss) (Line 24)	4	7	2	(1)	(9)
UNPAID CLAIMS ANALYSIS					
(U&I Exhibit, Part 2B)					
23. Total claims incurred for prior years (Line 12, Column 5)	6,212,397	10,602,690	14,957,326	10,046,511	12,104,799
24. Estimated liability of unpaid claims-[prior year (Line 12, Column 6)]	9,519,929	13,679,752	15,812,396	11,233,079	13,143,776
INVESTMENTS IN PARENT, SUBSIDIARIES AND AFFILIATES					
25. Affiliated bonds (Sch. D Summary, Line 25, Column 1)					
26. Affiliated preferred stocks (Sch. D Summary, Line 39, Column 1) ...					
27. Affiliated common stocks (Sch. D Summary, Line 53, Column 2) ...					
28. Affiliated short-term investments (subtotal included in Sch. DA, Part 2, Column 5, Line 11)					
29. Affiliated mortgage loans on real estate					
30. All other affiliated					
31. Total of above Lines 25 to 30					

SCHEDULE D - SUMMARY BY COUNTRY
Long-term Bonds and Stocks OWNED December 31 of Current Year

Description			1 Book/Adjusted Carrying Value	2 Fair Value	3 Actual Cost	4 Par Value of Bonds
BONDS Governments (Including all obligations guaranteed by governments)	1.	United States	9,967,061	9,940,065	9,971,471	10,000,000
	2.	Canada				
	3.	Other Countries				
	4.	Totals	9,967,061	9,940,065	9,971,471	10,000,000
States, Territories and Possessions (Direct and Guaranteed)	5.	United States				
	6.	Canada				
	7.	Other Countries				
	8.	Totals				
Political Subdivisions of States, Territories and Possessions (Direct and Guaranteed)	9.	United States				
	10.	Canada				
	11.	Other Countries				
	12.	Totals				
Special revenue and special assessment obligations and all non-guaranteed obligations of agencies and authorities of governments and their political subdivisions	13.	United States				
	14.	Canada				
	15.	Other Countries				
	16.	Totals				
Public Utilities (unaffiliated)	17.	United States				
	18.	Canada				
	19.	Other Countries				
	20.	Totals				
Industrial and Miscellaneous and Credit Tenant Loans (unaffiliated)	21.	United States				
	22.	Canada				
	23.	Other Countries				
	24.	Totals				
Parent, Subsidiaries and Affiliates	25.	Totals				
	26.	Total Bonds	9,967,061	9,940,065	9,971,471	10,000,000
PREFERRED STOCKS Public Utilities (unaffiliated)	27.	United States				
	28.	Canada				
	29.	Other Countries				
	30.	Totals				
Banks, Trust and Insurance Companies (unaffiliated)	31.	United States				
	32.	Canada				
	33.	Other Countries				
	34.	Totals				
Industrial and Miscellaneous (unaffiliated)	35.	United States				
	36.	Canada				
	37.	Other Countries				
	38.	Totals				
Parent, Subsidiaries and Affiliates	39.	Totals				
	40.	Total Preferred Stocks				
COMMON STOCKS Public Utilities (unaffiliated)	41.	United States				
	42.	Canada				
	43.	Other Countries				
	44.	Totals				
Banks, Trust and Insurance Companies (unaffiliated)	45.	United States				
	46.	Canada				
	47.	Other Countries				
	48.	Totals				
Industrial and Miscellaneous (unaffiliated)	49.	United States				
	50.	Canada				
	51.	Other Countries				
	52.	Totals				
Parent, Subsidiaries and Affiliates	53.	Totals				
	54.	Total Common Stocks				
	55.	Total Stocks				
	56.	Total Bonds and Stocks	9,967,061	9,940,065	9,971,471	

SCHEDULE D - Verification Between Years

1. Book/adjusted carrying value of bonds and stocks, prior year. .	_____	6. Foreign Exchange Adjustment:	
2. Cost of bonds and stocks acquired, Column 7, Part 3.....	9,971,471	6.1 Column 15, Part 1.....	_____
3. Increase (decrease) by adjustment:		6.2 Column 19, Part 2, Section 1.....	_____
3.1 Columns 12 + 13 - 14, Part 1.....	(4,410)	6.3 Column 16, Part 2, Section 2.....	_____
3.2 Column 18, Part 2, Section 1.....	_____	6.4 Column 15, Part 4.....	_____
3.3 Column 15, Part 2, Section 2.....	_____	7. Book/adjusted carrying value at end of current period.....	9,967,061
3.4 Column 14, Part 4.....	(4,410)	8. Total valuation allowance.....	_____
4. Total gain (loss), Column 19, Part 4.....	_____	9. Subtotal (Lines 7 plus 8).....	9,967,061
5. Deduct consideration for bonds and stocks disposed of		10. Total nonadmitted assets.....	_____
Column 7, Part 4.....	_____	11. Statement value of bonds and stocks, current period.....	9,967,061

SCHEDULE T - PREMIUMS AND OTHER CONSIDERATIONS
Allocated by States and Territories

		1	2	Direct Business Only					
		Guaranty Fund (Yes or No)	Is Insurer Licensed (Yes or No)	3	4	5	6	7	8
State, Etc.				Accident & Health Premiums	Medicare Title XVIII	Medicaid Title XIX	Federal Employees Health Benefits Program Premiums	Life & Annuity Premiums & Deposit-Type Contract Funds	Property/ Casualty Premiums
1.	Alabama (AL)	No ..	No ..						
2.	Alaska (AK)	No ..	No ..						
3.	Arizona (AZ)	No ..	No ..						
4.	Arkansas (AR)	No ..	Yes ..	57,507,808					
5.	California (CA)	No ..	No ..						
6.	Colorado (CO)	No ..	No ..						
7.	Connecticut (CT)	No ..	No ..						
8.	Delaware (DE)	No ..	No ..						
9.	District of Columbia (DC)	No ..	No ..						
10.	Florida (FL)	No ..	No ..						
11.	Georgia (GA)	No ..	No ..						
12.	Hawaii (HI)	No ..	No ..						
13.	Idaho (ID)	No ..	No ..						
14.	Illinois (IL)	No ..	No ..						
15.	Indiana (IN)	No ..	No ..						
16.	Iowa (IA)	No ..	No ..						
17.	Kansas (KS)	No ..	No ..						
18.	Kentucky (KY)	No ..	No ..						
19.	Louisiana (LA)	No ..	No ..						
20.	Maine (ME)	No ..	No ..						
21.	Maryland (MD)	No ..	No ..						
22.	Massachusetts (MA)	No ..	No ..						
23.	Michigan (MI)	No ..	No ..						
24.	Minnesota (MN)	No ..	No ..						
25.	Mississippi (MS)	No ..	No ..						
26.	Missouri (MO)	No ..	No ..						
27.	Montana (MT)	No ..	No ..						
28.	Nebraska (NE)	No ..	No ..						
29.	Nevada (NV)	No ..	No ..						
30.	New Hampshire (NH)	No ..	No ..						
31.	New Jersey (NJ)	No ..	No ..						
32.	New Mexico (NM)	No ..	No ..						
33.	New York (NY)	No ..	No ..						
34.	North Carolina (NC)	No ..	No ..						
35.	North Dakota (ND)	No ..	No ..						
36.	Ohio (OH)	No ..	No ..						
37.	Oklahoma (OK)	No ..	No ..						
38.	Oregon (OR)	No ..	No ..						
39.	Pennsylvania (PA)	No ..	No ..						
40.	Rhode Island (RI)	No ..	No ..						
41.	South Carolina (SC)	No ..	No ..						
42.	South Dakota (SD)	No ..	No ..						
43.	Tennessee (TN)	No ..	No ..						
44.	Texas (TX)	No ..	No ..						
45.	Utah (UT)	No ..	No ..						
46.	Vermont (VT)	No ..	No ..						
47.	Virginia (VA)	No ..	No ..						
48.	Washington (WA)	No ..	No ..						
49.	West Virginia (WV)	No ..	No ..						
50.	Wisconsin (WI)	No ..	No ..						
51.	Wyoming (WY)	No ..	No ..						
52.	American Samoa (AS)	No ..	No ..						
53.	Guam (GU)	No ..	No ..						
54.	Puerto Rico (PR)	No ..	No ..						
55.	U.S. Virgin Islands (VI)	No ..	No ..						
56.	Canada (CN)	No ..	No ..						
57.	Aggregate other alien (OT)	X X X ..	X X X ..						
58.	TOTAL (Direct Business)	X X X ..	(a). 1 ..	57,507,808					
DETAILS OF WRITE-INS									
5701	.....							
5702	.....							
5703	.....							
5798.	Summary of remaining write-ins for Line 57 from overflow page								
5799.	TOTALS (Lines 5701 through 5703 plus 5798) (Line 57 above)								

(a) Insert the number of yes responses except for Canada and Other Alien.
Explanation of basis of allocation of premiums by states, etc.:

SCHEDULE Y - INFORMATION CONCERNING ACTIVITIES OF INSURER
MEMBERS OF A HOLDING COMPANY GROUP
PART 1 - ORGANIZATIONAL CHART

PARENTS:

QualChoice of Arkansas, Inc.
FEIN: 71-0752544
Third Party Administrator of
Managed Care Health

Zenith National Insurance Corp.
FEIN: 95-1651549
Property and Casualty Insurer with
Speciality in Worker's Compensation

Novalis Corporation
FEIN: 14-1785722
Managed Care Services
and Consulting Firm

51.15%

30.19%

1.68%

University of Arkansas
for Medical Sciences
FEIN: 71-6046242

Arkansas Children's Hospital
FEIN: 71-0236857

15.09%

1.89%

HMO:

QCA Health Plan, Inc.
FEIN: 71-0794605
Health Maintenance Organization